

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 SAM-01 IO-10 /094 W

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R 220020Z AUG 75

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 6726

INFO AMCONSUL HONG KONG

USLO PEKING

AMEMBASSY TOKYO

CINCPAC

C O N F I D E N T I A L SECTION 1 OF 2 TAIPEI 5431

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: PINT, PFOR, ECON, TW, US

SUBJECT: POLITICAL/ECONOMIC ATMOSPHERICS IN TAIWAN

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1. SUMMARY: WITH THE ECONOMY SOMEWHAT ON THE UPSWING, OFFICIAL AND PUBLIC INTEREST IN TAIWAN IS AGAIN FOCUSING PRIMARILY ON POLITICAL ISSUES, BOTH INTERNATIONAL AND DOMESTIC. PRESIDENT FORD'S UPCOMING VISIT TO THE PRC HAS ELEVATED CONCERN OVER THE FUTURE OF US/ROC RELATIONS; AND THE FALL OF INDOCHINA AND PHILIPPINES AND THAI DERECOGNITION HAVE HEIGHTENED THE ROC'S SENSE OF DIPLOMATIC ISOLATION. DOMESTICALLY THOSE IN AND OUT OF GOVERNMENT ARE STRESSING THE NEED FOR UNITY, SELF-RELIANCE, AND STABILITY. END SUMMARY.
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2. ECONOMIC: THERE IS GENERAL AGREEMENT AMONG GROC OFFICIALS, PROMINENT CHINESE AND U.S. BUSINESSMEN, AND

ACADEMICIANS THAT THE RECESSION WHICH HIT TAIWAN LATE IN 1973 REACHED ITS NADIR IN FEBRUARY-MARCH OF 1975. SINCE THEN THE ECONOMY HAS SLOWLY BEGUN TO RECOVER. THE SPEED OF RECOVERY SHOULD CONTINUE TO GIVE MOMENTUM AND BY JUNE 1975, BARRING ADVERSE INTERNATIONAL ECONOMIC DEVELOPMENTS, THE ECONOMY SHOULD HAVE SHAKEN OFF THE EFFECTS OF THE RECESSION.

3. THE UNEMPLOYMENT RATE HAS DROPPED CONSIDERABLY SINCE JUNE 1975. LABOR SHORTAGES HAVE DEVELOPED IN SEVERAL INDUSTRIES, NOTABLY ELECTRONICS AND THE BUILDING TRADES. THIS SHORTAGE IS BEING AGGRAVATED BY THE DEMANDS FOR WORKERS IMPOSED BY THE TEN MAJOR PROJECTS AND THE CONSTRUCTION BOOM TAKING PLACE IN MAJOR URBAN AREAS.

4. CONSUMER CONFIDENCE IS INCREASING NOTICEABLY. MAJOR DEPARTMENT STORES' SALES IN JULY AND AUGUST 1975 ARE RUNNING WELL AHEAD OF SALES IN THE FIRST SIX MONTHS OF THIS YEAR. AUTOMOBILE AND APPLIANCE DEALERS REPORT SIMILARLY GOOD SALES AND REDUCED INVENTORIES.

5. SINCE THE MAJOR (30-40PERCENT) WAGE INCREASES GRANTED IN THE INDUSTRIAL SECTOR IN THE SPRING OF 1974, THERE HAS BEEN LITTLE PRESSURE FROM WORKERS FOR ANOTHER INCREASE, PRIMARILY DUE TO THE RECESSION. NOW THAT THE ECONOMY IS RECOVERING, THERE PROBABLY WILL BE PRESSURE FROM WORKERS DURING THE FOURTH QUARTER OF CY 1975 FOR A MODEST RAISE. (ABOUT TEN PERCENT).

6. FOREIGN INVESTMENT APPROVALS IN THE FIRST HALF OF 1975 AMOUNTED TO US\$42.3 MILLION, DOWN 55 PERCENT FROM THE FIRST SIX MONTHS OF 1974. THE GROG ATTRIBUTES THE DECLINE TO WORLD-WIDE ECONOMIC CONDITIONS AND NOT A LACK OF INVESTOR CONFIDENCE IN THE ROC. THE EMBASSY ACCEPTS THIS CONCLUSION. A NUMBER OF MAJOR INVESTMENTS BY US COMPANIES ARE UNDER CONSIDERATION BY THE FOREIGN INVESTMENT COMMISSION AND OTHER US COMPANIES HAVE INDICATED

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CATED PLANS TO INVEST ONCE THE US ECONOMY HAS RECOVERED SUFFICIENTLY TO ENABLE THEM TO IMPLEMENT A CAPITAL INVESTMENT PROGRAM.
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7. POLITICAL,(AS THE ECONOMY HAS PICKED UP AND BECAUSE OF CERTAIN EVENTS HAVING POLITICAL IMPLICATIONS, THE FOCUS

OF OFFICIAL AND PUBLIC CONCERN HAS ONCE AGAIN TURNED TO POLITICAL ISSUES -- BOTH DOMESTIC AND INTERNATIONAL. AMONG THESE EVENTS ARE THE FUTURE VISIT OF PRESIDENT

FORD TO PEKING, THE DEATH OF PRESIDENT CHIANG KAI-SHEK, THE FALL OF INDOCHINA, AND DERECOGNITION BY THE PHILIPPINES AND THAILAND.

8. PRESIDENT FORD'S TRIP TO THE PRC: CONCERN OVER THE IMPLICATIONS FOR TAIWAN OF PRESIDENT FORD'S TRIP TO THE PRC HAS GRADUALLY MOUNTED DURING RECENT MONTHS, BUT WE DOUBT IT WILL REACH ITS APEX UNTIL THE VISIT DRAWS NEARER. ALTHOUGH THE PRESS IS QUICK TO PLAY UP ANY ITEM WHICH MIGHT SUGGEST THE VISIT WILL NOT MATERIALIZE, IN DISCUSSIONS WITH BOTH MAINLANDERS AND TAIWANESE, OFFICIAL AND UNOFFICIAL, IT IS CLEAR THAT ALMOST EVERYONE BELIEVES THE VISIT WILL TAKE PLACE WITHIN THE NEXT SIX MONTHS.

9. MANY PEOPLE (AS WELL AS THE PRESS) EMPHASIZE THEIR VIEW THAT THE US CAN GAIN NOTHING BY CONTINUING DOWN THE ROAD OF NORMALIZATION WITH PEKING. SOME EXPRESS CONCERN THAT IN ORDER TO JUSTIFY A PRESIDENTIAL, LEVEL VISIT THE US WILL MAKE SOME CONCESSIONS TO THE PRC; BUT MOST BELIEVE, PRIMARILY AS A RESULT OF THE INDOCHINA DEBACLE, THAT FORD WILL NOT BE WILLING TO GO THE ENTIRE ROUTE IN NORMALIZING RELATIONS WITH PEKING DURING THIS VISIT. HOWEVER, SHOULD HE DO SO, THE MOST PRESSING PROBLEM IN THE EYES OF ALMOST EVERYONE IS THE STATUS OF THE US/ROC MUTUAL DEFENSE TREATY AND A CONTINUED US COMMITMENT TOWARD THE DEFENSE OF TAIWAN. WHILE SOME PEOPLE HAVE EXPRESSED DOUBTS THAT THE ROC CAN MAKE A GO

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BY THE US, MOST SEEM TO BELIEVE THEY CAN IF THE US PROVIDES FOR TAIWAN'S CONTINUED SECURITY FROM OUTSIDE INTERVENTION.

10. SOME SOURCES OF HOPE AND ANXIETY: AS NOTED IN EARLIER MESSAGES, THE FALL OF INDOCHINA HAS MET WITH A MIXED REACTION HERE. WHILE IT MAY HAVE INITIALLY INCREASED THE SENSE OF ISOLATION AND RAISED FURTHER DOUBTS ABOUT THE VALIDITY OF THE US COMMITMENT, MANY ARE NOW PROFESSING TO BELIEVE THAT THE US, HAVING LOST ITS POSITION OF STRENGTH IN SOUTHEAST ASIA, HAS REASSESSED ITS STRATEGIC POSTURE IN THE WESTERN PACIFIC. THIS REASSESSMENT, ACCORDING TO A VIEW FREQUENTLY EXPRESSED, HAS PLACED TAIWAN WITHIN A NEW US FORWARD DEFENSE LINE RUNNING FROM SOUTH KOREA, JAPAN, AND DOWN TO INDONESIA, AUSTRALIA, AND NEW ZEALAND. HOWEVER MUCH IT REPRESENTS WISHFUL THINKING, THIS VIEW HAS RECEIVED CONSIDERABLE PUBLICITY HERE.

11. THE DEATH OF PRESIDENT CHIANG HAS ALSO BEEN A SOURCE OF ANXIETY AS WELL AS HOPE. PREMIER CHIANG, AS AN ALREADY WELL-CONFIDENTIAL

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ENTRENCHED SUCCESSOR, HAS SMOOTHLY CARRIED ON WITH HIS LEADERSHIP OF BOTH GOVERNMENT AND PARTY. A POTENTIAL CRISIS HAS BEEN SUCCESSFULLY WEATHERED, AND FOR MANY THIS IS A SOURCE OF NEW CONFIDENCE IN THE CONTINUED VIABILITY OF THE GROC. FOR THE MAN IN THE STREET, THIS MAY BE ENOUGH; BUT FOR THE POLITICALLY AWARE THE OBVIOUS QUESTION OCCASIONALLY VOICED IS WHO WILL BE THE NEXT "SUCCESSOR"? EVERYONE SEEMS TO AGREE THAT AT PRESENT THERE IS NO ANSWER.

12. THEMES OF STABILITY, UNITY, AND SELF-RELIANCE: ALL THE EVENTS MENTIONED IN PARA 7 ABOVE HAVE COMBINED TO CREATE NEW THEMES OF PERHAPS FAR-REACHING IMPACT. THERE IS AN INCREASING AWARENESS ON THE PART OF THE PREMIER, OTHER GOVERNMENT OFFICIALS, AND THE AVERAGE MAN THAT TAIWAN -- IF IT IS TO SURVIVE -- MUST BE STABLE, MORE UNITED AND SELF-RELIANT. IN GOVERNMENT ADDRESSES AND PRIVATE CONVERSATIONS, THE TERMS "GOING IT ALONE" (I.E. LESS DEPENDENCE ON THE U.S.) AND "ALL IN THE SAME BOAT" ARE FREQUENTLY HEARD. PLANS ARE BEING CONSIDERED TO SHIFT SOME OF THE EMPHASIS IN ECONOMIC DEVELOPMENT AWAY FROM THE EXPORT INDUSTRIES TO ENABLE THE ISLAND TO BECOME LESS DEPENDENT ON THE VAGARIES OF FOREIGN TRADE. AT THE SAME TIME, EFFORTS CONTINUE TO EXPAND INFORMAL RELATIONS WITH COUNTRIES NOT

RECOGNIZING THE ROC, AND RESUMPTION OF THE TOKYO/TAIPEI AIRLINK AS WELL AS THE SEEMINGLY SATISFACTORY ESTABLISHMENT OF UNOFFICIAL RELATIONS WITH THE PHILIPPINES HAVE BEEN WIDELY PUBLICIZED.

13. THE PREMIER HAS TAKEN A NUMBER OF STEPS DESCRIBED IN SEPARATE EMBASSY REPORTING, SUCH AS COMMUTATION OF PRISONERS, REINSTATEMENT IN THE KMT OF PARTY STRAYS, THE GRADUAL BRINGING OF MORE TAIWANESE INTO THE GOVERNMENT, AND THE LOOSENING OF RESTRICTIONS ON CAMPAIGNS FOR THE DECEMBER 20 ELECTION OF SUPPLEMENTARY MEMBERS OF THE LEGISLATIVE YUAN, IN AN APPARENT ATTEMPT TO WOO BACK SOME OF THOSE WHO MAY HAVE FELT EXCLUDED FROM THE COMMUNITY. AND ON THE PART OF RESPONSIBLE OPPOSITIONISTS, THERE APPEARS TO BE A GROWING AWARENESS OF THE NEED TO AVOID COMMUNAL PROBLEMS AND AN EXPRESSED DESIRE TO SOLVE THE SOCIO-ECONOMIC PROBLEMS OF TAIWAN (AND NOT JUST
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OF THE TAIWANESE). IN SUM, IF THERE IS ONE THEME THAT CHARACTERIZES ATTITUDES ON DOMESTIC ISSUES OVER THE PAST SEVERAL MONTHS, IT IS THE EMPHASIS ON STABILITY (WHICH MAY, INCIDENTALLY, PARTIALLY EXPLAIN WHY LONG-RUMORED SHIFTS IN THE CABINET HAVE NOT YET MATERIALIZED.)
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